CNOOC LTD
Form 20-F
May 23, 2002

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM 20-F

(Mark One)

|_| REGISTRATION STATEMENT PURSUANT TO SECTION 12(b) OR (g) OF THE SECURITIES EXCHANGE ACT OF 1934

OR

|X| ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934 For the fiscal year ended December 31, 2001

OR

|_| TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the transition period from to

Commission File Number 1-14966

CNOOC LIMITED
(Exact name of Registrant as specified in its charter)

Hong Kong
(Jurisdiction of incorporation or organization)

65th Floor, Bank of China Tower
1 Garden Road, Central
Hong Kong
(Address of principal executive offices)

Securities registered or to be registered pursuant to Section 12(b) of the Act.

Title of Each class	Name of each exchan On which Registere
American Depositary Shares, each representing 20 shares of par value HK$0.10 per share..	New York Stock Exchange
Shares of par value HK$0.10 per share..................................	New York Stock Exchange

Securities registered or to be registered pursuant to Section 12(g) of the Act. Non
(Title of Class)

Securities for which there is a reporting obligation pursuant to Section 15(d) of the Ac
(Title of Class)

Indicate the number of outstanding Shares of each of the issuer's classes of capital or stock as of the close of the period covered by the annual report.

Shares, par value HK$0.10 per share...

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) or the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the Registrant as required to file such reports), and (2) has been subject to such filing requirements for the past 90 days.

Yes |X| No |_|

Indicate by check mark which financial statement item the Registrant has elected to follow.

Item 17 |_| Item 18 |X|

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* Not for trading, but only in connection with the registration of American Depositary Shares.

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CERTAIN TERMS AND CONVENTIONS

Definitions

Unless the context otherwise requires, references in this annual report to:

- "CNOOC" are to our parent, China National Offshore Oil Corporation, a PRC limited liability company, and its affiliates, excluding us and our subsidiaries;

- "CNOOC Limited," "we," "our" and "us" are to CNOOC Limited, a Hong Kong company, and its subsidiaries after giving effect to the reorganization of CNOOC or CNOOC's oil and gas exploration, development, production and sales business that was transferred to CNOOC Limited in the reorganization as described under "Item 5--Operating and Financial Review and Prospects" as though the reorganization had effect from the earliest relevant date, except where the context otherwise requires;

- "China" or the "PRC" are to the People's Republic of China, excluding for purposes of this annual report Hong Kong, Macau and Taiwan;

- "the Hong Kong Stock Exchange" are to The Stock Exchange of Hong Kong Limited;

- "HK$" are to Hong Kong dollars;

- "JPY" are to Japanese yen;

- "Rmb" are to Renminbi, the currency of the PRC; and

- "US$" are to US dollars, the currency of the United States of America.

Conventions

We have translated amounts from Renminbi into U.S. dollars solely for the convenience of the reader at the noon buying rate in New York for cable transfers payable in foreign currencies as certified for customs purposes by the Federal Reserve Bank of New York on December 31, 2001 of US$1.00=Rmb 8.2766. We make no representation that the Renminbi amounts could have been, or could be, converted into U.S. dollars at that rate on December 31, 2001, or at all.

Our average net realized price for oil and gas in each period is calculated by adding our revenues from oil and gas sales to our 30% ownership share of revenues from oil and gas sales of our associated company and dividing this total by the sum of our total volume of oil and gas sales and 30% of the volume of oil and gas sales of our associated company.

Our net proved reserves consist of our percentage interest in proved reserves, comprised of our 100% interest in our independent oil and gas properties (excluding the Pinghu field), our participating interest in the properties covered under our production sharing contracts, and 30% of the proved reserves of our associated company that operates the Pinghu field in the East China Sea, less:

- an adjustment for our share of royalties payable to the PRC government and our participating interest in share oil payable to the PRC government under our production sharing contracts, and

- an adjustment for production allocable to foreign partners under our production sharing contracts as reimbursement for exploration expenses attributable to our participating interest.

Net proved reserves do not include any deduction for production taxes payable by us, which are included in our operating expenses. Net production is calculated in the same way as net proved reserves. For information regarding the historical amounts of royalties and share oil paid to the PRC government, see note 5 to the consolidated financial statements. Unless otherwise noted, all information in this annual report relating to oil and natural gas reserves is based upon estimates prepared by us. In calculating BOE amounts, we have assumed that 6,000 cubic feet of natural gas equals one BOE.

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Glossary of Technical Terms

Unless otherwise indicated in the context, references to:

- "adjusted finding and development cost per BOE" means the sum of (a) total finding costs incurred for the years ended December 31, 1999, 2000 and 2001 divided by the sum of discoveries, extensions, and revisions of prior estimates of net proved reserves for the years ended December 31, 1999, 2000 and 2001 and (b) the sum of (i) total development costs for the years ended December 31, 1999, 2000 and 2001 and (ii) the amount of expected future development costs of proved undeveloped reserves as of December 31, 2001 divided by the sum of (iii) proved undeveloped reserves as of December 31, 2001 and (iv) the sum of undeveloped reserves converted to developed reserves for the years ended December 31, 1999, 2000 and 2001. This measure is used to account for expected future development costs for existing reserves in addition to finding and development costs already incurred.

- "API gravity" means the American Petroleum Institute's scale for specific gravity for liquid hydrocarbons, measured in degrees. The lower the API gravity, the heavier the liquid and, generally, the lower its commercial value. For example, asphalt has an API gravity of 8 degrees, West Texas Intermediate, a benchmark crude oil, has an API of 40 degrees, and gasoline has an API gravity of 50 degrees.

- "appraisal well" means an exploration well drilled after a successful wildcat well to gain more information on a newly discovered oil or gas reserve.

- "condensate" means light hydrocarbon liquids separated from natural gas in the field through condensation when natural gas is exposed to surface temperature and pressure. This group generally includes slightly heavier hydrocarbons than natural gas liquids, such as pentane. It is combined with crude oil production and reserve figures.

- "crude oil" means crude oil, including condensate and natural gas liquids.

- "development cost" means, for a given period, costs incurred to obtain access to proved reserves and to provide facilities for extracting, treating, gathering and storing the oil and gas.

- "dry hole" means an exploration well that is not commercial (i.e., economically feasible to develop). Dry hole costs include the full costs for such drilling and are charged as an expense.

- "exploration well" means a wildcat or appraisal well.

- "finding and development cost per BOE" means the sum of total finding and development cost incurred for the years ended December 31, 1999, 2000 and 2001, divided by the sum of discoveries, extensions, and revisions of prior estimates of net proved reserves for the years ended December 31, 1999, 2000 and 2001.

- "finding cost" means, for a given period, costs incurred in identifying areas that may warrant examination and in examining specific areas that are considered to have prospects of containing oil and gas reserves, including costs of drilling exploratory wells.

- "lifting cost" means, for a given period, costs incurred to operate and maintain wells and related equipment and facilities, including applicable operating costs of support equipment and facilities and other costs of operating and maintaining those wells and related equipment and facilities, plus production taxes. Also known as production cost.

- "natural gas liquids" means light hydrocarbons that can be extracted in liquid form from natural gas through special separation plants. This group includes typically lighter liquid hydrocarbons than condensate, such as butane, propane and ethane. It is combined with crude oil production but not with crude oil reserve figures.

- "net wells" means a party's working interest in wells under a production sharing contract.

- "offshore" means areas under water with a depth of five meters or greater.

- "onshore" means areas of land and areas under water with a depth of less than five meters.

- "proved developed reserves" means proved reserves of oil and natural gas that can be expected to be recovered through existing wells with existing equipment and operating methods.

- "proved reserves" means estimated quantities of crude oil and natural gas that geological and engineering data demonstrate with reasonable certainty to be recoverable in future years from known reservoirs under existing economic and operating conditions, i.e., prices and costs as of the date the estimate is made.

- "proved undeveloped reserves" means proved reserves that are expected to be recovered from new wells in undrilled areas, or from existing wells where significant expenditure is required for completion.

For a further definition of reserves:

- "reserve replacement ratio" means, for a given year, gross additions to proved reserves divided by production during the year.

- "reserve-to-production ratio" means the ratio of proved reserves to annual production of crude oil or, with respect to natural gas, to wellhead production excluding flared gas.

- "seismic data" means data recorded in either two-dimensional (2D) or three-dimensional (3D) form from sound wave reflections off of subsurface geology. This is used to understand and map geological structures for exploratory purposes to predict the location of undiscovered reserves.

- "success" means a discovery of oil or gas by an exploration well. Such an exploration well is a successful well and is also known as a discovery. A successful well is not necessarily commercial, which means there are enough hydrocarbon deposits discovered for economical recovery.

- "success rate" means the total number of successful wells divided by the total number of wells drilled in a given period. Success rate can be applied to wildcat wells or exploration wells in general.

- "wildcat well" means an exploration well drilled in an area or rock formation that has no known reserves or previous discoveries.

References to:

- bbls means barrels, which is equivalent to approximately 0.134 tonnes of oil (33 degrees API),

- mmbbls means million barrels,

- BOE means barrels-of-oil equivalent,
- BOE per day means barrels-of-oil equivalent per day,
- million BOE means million barrels-of-oil equivalent,
- mcf means thousand cubic feet,
- mmcf means million cubic feet,
- bcf means billion cubic feet, which is equivalent to approximately 283.2 million cubic meters,
- BTU means British Thermal Unit, a universal measurement of energy, and
- km means kilometers, which is equivalent to approximately 0.62 miles.

CURRENCIES AND EXCHANGE RATES

We publish our financial statements in Renminbi. Unless otherwise indicated, all translations from Renminbi to US dollars have been made at a rate of Rmb 8.2766 to US$1.00, the noon buying rate as certified for customs purposes by the Federal Reserve Bank of New York on December 31, 2001. We do not represent that Renminbi or US dollar amounts could be converted into US dollars or Renminbi, as the case may be, at any particular rate, the rate below or at all.

The following table sets forth the noon buying rate for US dollars in New York City for cable transfers in Renminbi as certified for customs purposes by the Federal Reserve Bank of New York for the periods indicated:

	Noon Buying Rate			
Period	End	Average(1)	High	L
	(Rmb per US$1.00)			
1997	8.3100	8.3193	8.3290	8.2
1998	8.3008	8.2991	8.3100	8.2
1999	8.2795	8.2785	8.2800	8.2
2000	8.2774	8.2784	8.2799	8.2
2001	8.2766	8.2772	8.2786	8.2
November 2001	8.2772	--	8.2774	8.2
December 2001	8.2766	--	8.2773	8.2
January 2002	8.2765	--	8.2768	8.2
February 2002	8.2765	--	8.2770	8.2
March 2002	8.2774	--	8.2800	8.2
April 2002	8.2773	--	8.2780	8.2
2002 (through April 30, 2002)	8.2773	8.2769	8.2800	8.2

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(1) Determined by averaging the rates on the last business day of each month during the relevant period.

As of May 17, 2002, the noon buying rate for cable transfers in Renminbi as certified for customs purposes by The Federal Reserve Bank of New York was Rmb 8.2769 to US$1.00.

The Hong Kong dollar is freely convertible into the U.S. dollar. Since 1983, the Hong Kong dollar has been linked to the U.S. dollar at the rate of HK$7.80 to US$1.00. The Hong Kong government has also stated that it has no intention of imposing exchange controls in Hong Kong and that the Hong Kong dollar will remain freely convertible into other currencies, including the U.S. dollar. However, we cannot assure you that the Hong Kong government will maintain the link at HK$7.80 to US$1.00 or at all.

The following table sets forth the noon buying rate for US dollars in New York City for cable transfers in Hong Kong dollars as certified for customs purposes by the Federal Reserve Bank of New York for the periods indicated.

		Noon buying rate		
Period	End	Average(1)	High	L
		(HK$ per US$1.00)		
1997	7.7495	7.7440	7.7550	7.7
1998	7.7476	7.7465	7.7595	7.7
1999	7.7740	7.7599	7.7814	7.7
2000	7.7999	7.7936	7.8008	7.7
2001	7.7980	7.7996	7.8004	7.7
November 2001	7.7988	--	7.8004	7.7
December 2001	7.7980	--	7.7999	7.7
January 2002	7.7995	--	7.8000	7.7
February 2002	7.7995	--	7.7999	7.7
March 2002	7.8000	--	7.8000	7.7
April 2002	7.7992	--	7.8095	7.7
2002 (through April 30, 2002)	7.7992	7.7996	7.8095	7.7

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(1) The average of the noon buying rates on the last day of each month during the relevant period.

As of May 17, 2002, the noon buying rate for cable transfers in Hong Kong dollars as certified for customs purposes by The Federal Reserve Bank of New York was HK$7.7990 to US$1.00.

FORWARD-LOOKING STATEMENTS

This annual report includes "forward-looking statements." All statements, other than statements of historical facts, included in this annual report that address activities, events or developments which we expect or anticipate will or may occur in the future are forward-looking statements. The words "believe", "intend", "expect", "anticipate", "project", "estimate", "predict" and similar expressions are also intended to identify forward-looking statements.

These forward-looking statements address, among others, such issues as:

- the amount and nature of future exploration, development and other capital expenditures,
- wells to be drilled or reworked,
- oil and gas prices and demand,
- future earnings and cash flow,
- development projects,
- exploration prospects,
- estimates of proved oil and gas reserves,
- potential reserves,
- development and drilling potential,
- drilling prospects,
- expansion and other development trends of the oil and gas industry,
- business strategy,
- production of oil and gas,
- development of undeveloped reserves,
- expansion and growth of our business and operations, and
- our estimated financial information.

These statements are based on assumptions and analyses made by us in light of our experience and our perception of historical trends, current conditions and expected future developments, as well as other factors we believe are appropriate under the circumstances. However, whether actual results and developments will meet our expectations and predictions depend on a number of risks and uncertainties which could cause actual results to differ materially from our expectation. See "Item 3-Key Information-Risk Factors."

Consequently, all of the forward-looking statements made in this annual report are qualified by these cautionary statements. We cannot assure you that the actual results or developments anticipated by us will be realized or, even if substantially realized, that they will have the expected effect on us or our business or operations.

PART I

ITEM 1. IDENTITY OF DIRECTORS, SENIOR MANAGEMENT AND ADVISORS

Not applicable, but see "Item 6--Directors, Senior Management and Employees--Directors and Senior Management."

ITEM 2. OFFER STATISTICS AND EXPECTED TIMETABLE

Not applicable.

ITEM 3.

KEY INFORMATION

A. SELECTED FINANCIAL DATA

Historical Financial Information

You should read the selected historical financial data set forth below in conjunction with our consolidated financial statements and their notes and "Item 5--Operating and Financial Review and Prospects" included elsewhere in this annual report.

We have prepared our consolidated financial statements in accordance with Hong Kong GAAP. For a reconciliation of our net income, shareholders' equity and cash flows to U.S. GAAP, see note 36 to the consolidated financial statements.

	Year Ended December 31,				
	1997	1998	1999	2000	2001
	Rmb	Rmb	Rmb	Rmb	Rmb
	(in millions, except per share and per ADS data				
Income Statement Data:					
Hong Kong GAAP					
Operating revenues:					
Oil and gas sales......................	11,461	7,814	11,398	18,819	17,561
Marketing revenues.....................	881	1,488	3,805	5,126	2,537
Other income...........................	31	10	108	279	722
Total operating revenues...............	12,373	9,312	15,311	24,224	20,820
Expenses:					
Operating expenses.....................	(1,859)	(1,954)	(1,855)	(2,124)	(2,329)
Production taxes.......................	(589)	(383)	(579)	(1,037)	(884)
Exploration costs......................	(458)	(584)	(247)	(553)	(1,039)
Depreciation, depletion and amortization.........................	(2,062)	(1,954)	(2,373)	(2,578)	(2,567)
Dismantlement and site restoration allowance...........................	(198)	(188)	(177)	(104)	(90)
Crude oil and product purchases........	(867)	(1,432)	(3,737)	(5,098)	(2,453)
Selling and administrative expenses....	(579)	(650)	(517)	(456)	(616)
Interest, net..........................	(644)	(491)	(568)	(238)	201
Exchange gain (loss), net..............	226	(303)	(432)	381	235

Other	(107)	(109)	(5)	(217)	(618)	
Total expenses	(7,137)	(8,048)	(10,490)	(12,024)	(10,160)	(1
Share of (loss) profit of an associated company	(10)	--	13	218	90	
Investment income	--	--	--	--	221	
Non-operating profit (loss), net	3	580	(1)	(195)	35	
Income before tax	5,229	1,844	4,833	12,223	11,006	
Provision for taxation	(329)	(295)	(722)	(1,926)	(3,048)	
Net income	4,900	1 ,549	4,111	10,297	7,958	
Net income per share (basic & diluted)(a)	0.82	0.26	0.69	1.63	1.00	
Net income per ADS(a)	16.33	5.16	13.70	32.53	20.04	
U.S. GAAP						
Operating revenues:						
Oil and gas sales	11,461	7,814	11,398	18,819	17,561	
Marketing revenues	881	1,488	3,805	5,126	2,537	
Other income	31	10	108	279	722	
Total operating revenues	12,373	9,312	15,311	24,224	20,820	
Net Income	4,900	1,549	4,113	10,302	7,920	
Net income per share (basic & diluted)(a)	0.82	0.26	0.69	1.63	1.00	
Net income per ADS(a)	16.33	5.16	13.71	32.55	19.95	

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	Year Ended December 31,					
	1997	1998	1999	2000	2001	2
	Rmb	Rmb	Rmb	Rmb	Rmb	
	(in millions)					
Balance Sheet Data:						
Hong Kong GAAP						
Cash and cash equivalents	330	426	879	2,797	6,394	
Time deposits with maturities of three months or more	--	--	--	3,425	2,050	
Current assets	2,820	2,102	4,987	9,472	20,030	
Property, plant and equipment, net	17,334	18,963	20,908	22,654	23,828	
Investment in associated company	260	260	274	471	462	
Total assets	20,414	21,325	26,169	32,597	44,320	
Current liabilities	3,821	2,813	9,177	8,768	4,392	
Long-term bank loans, net of current portion	8,359	8,333	6,033	4,749	3,256	
Total long-term liabilities	11,785	12,153	8,607	7,707	6,617	
Total liabilities	15,606	14,966	17,785	16,475	11,009	
Shareholders' equity	4,808	6,359	8,384	16,122	33,311	
U.S. GAAP						
Total assets	20,414	21,325	26,000	32,330	44,062	
Total long-term obligations and shares with repurchase commitment	11,785	12,153	7,562	7,707	6,617	
Shareholders' equity	4,808	6,359	9,261	15,855	33,053	

	Year Ended December 31,					
	1997	1998	1999	2000	2001	2
	Rmb	Rmb	Rmb	Rmb	Rmb	
	(in millions, except percentages)					
Other Financial Data:						
Hong Kong GAAP						
Capital expenditures......................	2,783	3,576	4,070	4,404	4,343	
Cash provided by (used for):						
Operating activities..................	8,467	4,593	8,172	14,436	14,025	
Returns on investments and servicing of finance..........................	(781)	(599)	(651)	(4,391)	(3,923)	
Taxation paid.........................	(1)	(52)	(198)	(880)	(2,611)	
Investing activities..................	(2,974)	(2,952)	(4,442)	(7,861)	(11,366)	(1
Financing activities..................	(4,715)	(895)	(2,428)	(620)	(7,473)	
Cash dividends declared per share..........	--	--	0.17	0.98	0.11	
EBITDE(b).................................	8,364	5,365	8,630	15,314	14,366	
EBITDE margin(c)..........................	67.6%	57.6%	56.4%	63.2%	69.0%	
U.S. GAAP						
Cash provided by (used for):						
Operating activities......................	7,685	3,942	7,323	13,239	11,759	
Investing activities......................	(2,974)	(2,952)	(4,442)	(7,861)	(11,366)	(1
Financing activities......................	(4,715)	(895)	(2,428)	(3,454)	3,204	
Cash dividends declared per share..........	--	--	0.17	0.98	0.11	
EBITDE(b).................................	8,364	5,365	8,630	15,314	14,319	
EBITDE margin(c)..........................	67.6%	57.6%	56.4%	63.2%	68.8%	

(a) Net income per share and net income per ADS for the years ended December 31, 1997, 1998 and 1999 have been computed by dividing net income by the number of shares and the number of ADSs of 6,000,000,000 and 300,000,000, respectively (based on a ratio of 20 shares to one ADS), outstanding immediately after the reorganization. Net income per share and net income per ADS for 2000 have been computed by dividing net income by the weighted average number of shares and the weighted average number of ADSs of 6,331,114,421 and 316,555,721 respectively (based on a ratio of 20 shares to one ADS) for the period. Similarly, net income per share and net income per ADS for 2001 have been computed, after considering the dilutive effect of potential ordinary shares under our share option scheme, using 7,942,288,803 and 397,114,440 respectively.

(b) EBITDE refers to earnings before interest income, interest expense, income taxes and depreciation, depletion and amortization, dismantlement and site restoration allowance, impairment losses related to property, plant and equipment, exploration costs and exchange gains or losses as computed under Hong Kong GAAP and U.S. GAAP. EBITDE is not a standard measure under Hong

Kong GAAP or U.S. GAAP. We have included EBITDE as we believe it is a financial measure commonly used in the oil and gas industry. We believe that EBITDE is a useful supplement to cash flow data because it enables us to measure our operating performance and provides us with a general indicator of our ability to service and incur debt as well as to internally fund exploration and development activities. However, EBITDE should not be considered in isolation or construed as an alternative to operating income, operating cash flows or any other measure of performance or as an indicator of our operating performance, liquidity, profitability or cash flows generated by operating, investing and financing activities. EBITDE fails to account for taxes, interest expense and other non-operating cash expenses. EBITDE does not consider any functional or legal requirements of the business that may require us to conserve and allocate funds for purposes other than debt service or funding of exploration and development activities. EBITDE measures presented in this annual report may not be comparable to other similarly titled measures of other companies.

(c) EBITDE margin represents EBITDE as a percentage of our total revenues, as computed under both Hong Kong GAAP and U.S. GAAP.

B. CAPITALIZATION AND INDEBTEDNESS

Not applicable.

C. REASONS FOR THE OFFER AND USE OF PROCEEDS

Not applicable.

D. RISK FACTORS

Risks Relating to CNOOC Limited

Our business, revenues and profits fluctuate with changes in oil and gas prices. Even relatively modest declines in crude oil prices may adversely affect our business, revenues and profits. Our profitability is determined in large part by the difference between the prices received for crude oil we produce and the costs of exploring for, developing, producing and selling these products.

Prices for crude oil are subject to wide fluctuations in response to relatively minor changes in the supply of and demand for oil, market uncertainty and a variety of additional factors that are beyond our control, including:

o political developments in petroleum producing regions,

o the ability of the Organization of Petroleum Exporting Countries and other petroleum producing nations to set and maintain production levels and prices,

o the price and availability of other energy sources, such as coal,

o domestic and foreign government regulation,

o weather conditions, and

o overall economic conditions.

Our revenues and net income have fluctuated significantly in the past four years, principally due to the volatility of world oil prices. Oil prices worldwide have fluctuated considerably over the past year, which have adversely affected our results of operations. Any future declines in oil and gas prices would adversely affect our revenues and net income.

The prices for the natural gas that we sell in the PRC market are determined by negotiations between us and the buyers. Our typical contracts with gas buyers include provisions for annual resets and adjustment formulas that depend on a basket of crude oil prices, inflation and various other factors. Such resets and adjustment formulas can result in fluctuation of natural gas prices which may adversely affect our business, results of operations and financial condition.

Lower oil and gas prices may also result in the write-off of higher cost reserves and other assets and in decreased earnings or losses. Lower oil and natural gas prices may also reduce the amount of oil and natural gas we

can produce economically, and existing contracts that we have entered into may become uneconomical as a result of changing prices. For further details regarding the effects of fluctuating oil and gas prices on our financial condition results of operations, see "Item 5--Operating and Financial Review and Prospects."

The oil and gas reserves data in this annual report are only estimates and may require substantial revisions as a result of future drilling, testing and production. The reliability of reserves estimates depends on a number of factors, including:

- the quality and quantity of technical and economic data,
- the prevailing oil and gas prices applicable to our production,
- the production performance of the reservoirs,
- extensive engineering judgments, and
- consistency in the PRC government's royalty and share oil policies.

Many of the factors, assumptions and variables involved in estimating reserves are beyond our control and may prove to be incorrect over time. As a result, results of drilling, testing and production after the date of the estimates may require substantial upward or downward revisions in our reserves data. For more information on our oil and gas reserves data, see "Item 4--Information on the Company--Oil and Natural Gas Reserves." Our oil and gas reserves estimates included in this annual report as of dates prior to December 31, 1999 have not been evaluated by Ryder Scott Company, our independent petroleum engineering consultants.

Our failure to gain access to additional reserves and to develop our proved undeveloped reserves may adversely affect our ability to achieve our growth objectives. Our ability to achieve our growth objectives depends upon our success in finding and acquiring or gaining access to additional reserves. Our future drilling, exploration and acquisition activities may not be successful. If we do not conduct successful exploration and development activities, or acquire properties containing proved reserves, our total proved reserves will decline.

Approximately 60% of our proved reserves were undeveloped as of December 31, 2001. Our future success will depend on our ability to develop these reserves in a timely and cost-effective manner. There are various risks in developing reserves, including construction, operational, geophysical, geological and regulatory risks.

Our development plans have significant capital expenditure requirements and our capital expenditure plans are subject to various risks. The oil and gas exploration and production business is a capital intensive business. We currently plan to spend approximately US$2.1 billion for capital expenditures relating to the development of our oil and gas properties offshore China and approximately US$400 million per year for independent exploration from 2002 through 2003. In addition to these amounts, we may make additional capital expenditures and investments in implementing our business strategy, including our natural gas strategy.

Our ability to maintain and increase our revenues, net income and cash flows depends upon continued capital spending. We adjust our capital expenditure and investment budget on an annual basis. Our capital expenditure plans are subject to a number of risks, contingencies and other factors, some of which are beyond our control, including:

o our ability to generate sufficient cash flows from operations and financings to finance our capital expenditures, investments and other requirements,

o the availability and terms of external financing,

o changes in crude oil and natural gas prices, which may affect our cash flows from operations and capital expenditure and investment plans,

o our mix of exploration and development activities conducted on an independent basis versus under production sharing contracts,

o new investment opportunities that may be presented to us such as international investment opportunities, liquefied natural gas projects and other natural gas projects,

o PRC government approvals required for some capital expenditures and investments,

o our ability to obtain sufficient foreign currency to finance our capital expenditures, and

o economic, political and other conditions in the PRC and Hong Kong.

Therefore, our actual future capital expenditures and investments will likely be different from our current planned amounts. The differences may be significant.

Our business development may require external financing and our ability to obtain external financing is uncertain. From time to time, we need to obtain external debt and equity financing to implement our development plans and to fund our other business requirements.

Our ability to obtain external financing in the future is subject to a variety of uncertainties including:

o our future results of operations, financial condition and cash flows,

- the amount of capital that other PRC and Hong Kong entities may seek to raise in foreign capital markets,
- economic, political and other conditions in the PRC and Hong Kong,
- the PRC government's policies relating to foreign currency borrowings, and
- conditions in the PRC, Hong Kong and international capital markets.

Our inability to obtain sufficient funding for our operations or development plans could adversely affect our business, revenues, net income and cash flows. For additional information on our capital expenditure plans and financing requirements, see "Item 5--Operating and Financial Review and Prospects--Liquidity and Capital Resources."

Our failure to implement our natural gas business strategy may adversely affect our business and financial position. As part of our business strategy, we intend to expand our natural gas business to meet increasing market demand in China and to promote the development and production of our natural gas reserves. This strategy involves a number of risks and uncertainties including the following:

- we have no experience in investing in liquefied natural gas facilities, gas transmission and distribution systems, and overseas upstream natural gas properties,
- significant additional capital expenditures, which are required to implement our natural gas strategy, could divert resources from our core oil and gas exploration and production business and require us to seek additional financing,
- we may face additional competition in our new natural gas activities from a number of international and PRC companies. In particular, PetroChina is currently constructing several natural gas pipelines and planning to construct more pipelines in an effort to link its natural gas fields located in the western region to the eastern coastal regions of China. The completion of these pipelines could significantly increase the competition in these coastal regions,
- our new natural gas activities may subject us to additional government regulations in China and overseas,
- we do not have the same preferential rights or access to natural gas businesses or overseas natural gas investments that we enjoy with respect to our upstream natural gas business offshore China, and
- we are evaluating our option to make an investment in CNOOC's planned liquefied natural gas project in Guangdong Province. However, we have not decided whether to exercise our option. There are various conditions to our ability to exercise the option, including required governmental approvals.

Due to the above factors or other reasons, we may fail to implement our natural gas strategy successfully.

The development of the natural gas infrastructure and demand in the PRC natural gas market may occur at a slower pace than our planned increase in production, which could adversely affect our ability to increase natural gas sales. Our proposed expansion of natural gas production in China is currently constrained by a lack of natural gas transmission and supply infrastructure and an underdeveloped natural gas market. Construction of transmission and supply pipelines and other infrastructure can depend on many factors, such as government funding, costs of land acquisition, national and local government approvals, and timely completion of construction, some of which are beyond our control. Development of the natural gas market depends on the establishment of long-term natural gas supply contracts with natural gas utilities or large end-users, such as power and chemical plants. The demand of these buyers for natural gas could be impacted by a number of regulatory and market factors beyond our control, such as regulation of coal prices, government power and utility policies, chemical commodity cycles, electricity pricing and demand, and environmental policies.

We are controlled by CNOOC. CNOOC indirectly owns, through CNOOC (BVI) Limited, its wholly owned subsidiary, an aggregate of 70.61% of our shares. As a result, CNOOC is effectively able to control the composition of our board of directors, determine the timing and amount of dividend payments and otherwise control us, including causing us to effect corporate transactions without the approval of our minority shareholders, except where we are required to obtain such approval in order to comply with the requirements of the rules of The Stock Exchange of Hong Kong Limited with respect to connected transactions. For further details regarding potential conflicts, see "Item 7--Major Shareholders and Related Party Transactions."

Under current PRC law, CNOOC has the exclusive right to enter into production sharing contracts with international oil and gas companies for petroleum exploration and production offshore China. CNOOC has undertaken to us that it will transfer to us all of its rights and obligations under any new production sharing contracts, except those relating to its administrative functions. However, we cannot contract directly with foreign enterprises for these purposes without CNOOC. The interests of CNOOC in entering into production sharing contracts with international oil and gas companies may conflict with our interest because of the possible differences between CNOOC's and our criteria in determining whether, and on what terms, to enter into production sharing contracts. Our future business development may be adversely affected if CNOOC does not enter into new production sharing contracts.

A substantial portion of our sales are to three customers, and significantly reduced purchases from them could have a material adverse impact on our operations. We sell a significant percentage of our crude oil production in the PRC domestic market to refineries and petrochemical companies that are affiliates of China Petroleum & Chemical Corporation or Sinopec. For the years ended December 31, 1999, 2000 and 2001, our sales to Sinopec comprised approximately 56.2%, 26.1% and 30.2%, respectively, of our total operating revenues. PetroChina is our next largest customer. For the years ended December 31, 1999, 2000 and 2001, our sales to PetroChina were approximately 12.0%, 6.0%, and 6.3%, respectively, of our total operating revenues. Both PetroChina and Sinopec are majority owned by the PRC government. In addition, we sell a significant portion of our natural gas to one customer, Castle Peak Power Company Limited in Hong Kong, under a long term take-or-pay contract. For the years ended December 31, 1999, 2000 and 2001, our sales to this customer were approximately 7.6%, 5.6% and 5.8%, respectively, of our total operating revenues.

Both PetroChina and Sinopec have their own oil and gas fields and have the right to import crude oil directly from international markets. We do not have any long-term sales contracts with PetroChina, Sinopec or their respective affiliates. Our business, results of operations and financial condition would be adversely affected if:

- either PetroChina or Sinopec significantly reduces its purchases of crude oil from us, or

- they suffer significant financial difficulties and, in either case,

- we cannot find a ready buyer for our crude oil in the international market.

We may lose market share to existing competitors, and new entrants into the offshore petroleum industry in China would increase competition and could adversely affect our business. The crude oil industry is highly competitive. We compete in the PRC and international markets for both customers and capital to finance our

exploration, development and production activities, as well as for the acquisition of desirable oil and gas prospects. The prices of our crude oil are determined by reference to the prices of crude oil of comparable quality on the international market. Our principal competitors in the PRC market are PetroChina and Sinopec. For further details, see "Item 4--Information on the Company--Competition."

We are the dominant player in the oil and gas industry offshore China, and we are the only company authorized to engage in oil and gas exploration offshore China in cooperation with international oil and gas companies. If there are any changes in current PRC laws or regulations permitting an expansion of existing companies' activities or new entrants into the offshore petroleum industry, we may face increased competition in obtaining new oil and gas properties offshore China.

CNOOC has undertaken to us that so long as

- it retains a controlling interest in us and

- our securities are listed on the Hong Kong Stock Exchange, the New York Stock Exchange or other securities trading systems in other parts of the world,

we will have the exclusive right to exercise CNOOC's rights to engage in offshore oil and gas exploration, development, production and sales in the PRC and that it will not compete with us in such oil and gas business. However, CNOOC may not continue to maintain a controlling interest in our company and CNOOC's undertaking may be subject to interpretative challenges in the future. See "Item 7--Major Shareholders and Related Party Transactions."

Our operations are affected by exploration, development and production risks and natural disasters, and resulting losses may not be covered by insurance. Our petroleum exploration, development and production operations involve risks normally incidental to such activities, including pipeline ruptures and spills, fires, explosions, encountering formations with abnormal pressures, blowouts, cratering and natural disasters, any of which may result in loss of hydrocarbons, environmental pollution and other damage to our properties and the properties of operators under production sharing contracts. Also, we run the risk that we will not find any economically productive natural gas or oil reservoirs. In addition, the costs of drilling, completing and operating wells are often uncertain and are subject to numerous factors beyond our control, including:

- weather conditions,
- natural disasters,
- shortages of, or delays in obtaining, equipment, and
- inadequacy and unavailability of transportation facilities.

We maintain insurance coverage against only some, but not all, potential losses. We do not maintain business interruption insurance for all of our oil and gas fields. We may suffer material losses resulting from uninsurable or uninsured risks or insufficient insurance coverage.

For further information on our insurance coverage, see "Item 4--Information on the Company--Operating Hazards and Uninsured Risks."

We may be exposed to certain risks of operations in Indonesia as a result of our acquisition of certain oil and gas interests located onshore and offshore Indonesia. We recently completed the acquisition of nine subsidiaries of Repsol YPF, S.A. See "Item 5--Operating and Financial Review and Prospects--The Repsol Acquisition" and "Item 4--Information on the Company--Principal Oil and Gas Regions--Overseas Activity." The interests of the acquired subsidiaries are located onshore and offshore Indonesia and are subject to certain risks of operations in Indonesia, including Indonesian economic and political risks. Although the subsidiaries have not historically experienced problems from civil unrest or disputes with the Indonesian government, Indonesia's current political and economic environment could impact the financial position, results of operations and prospects of the subsidiaries and we may not fully realize the intended benefits of the acquisition.

The businesses of the subsidiaries are subject to the laws and regulations of Indonesia, including those relating to the development, production, marketing, pricing, transportation and storage of natural gas and crude oil, taxation and environmental and safety matters. In addition, these subsidiaries are subject to production sharing arrangements with Pertamina, the Indonesian state owned oil and gas company, which is currently the sole entity authorized to manage Indonesia's petroleum resources on behalf of the Indonesian government. The subsidiaries may be adversely affected by changes in governmental policies or social instability or other political, economic or diplomatic developments in or affecting Indonesia which are not within our control including, among other things, a change in crude oil or natural gas pricing policy, the risks of war and terrorism, expropriation, nationalization, renegotiation or nullification of existing concessions and contracts, taxation policies, foreign exchange and repatriation restrictions, changing political conditions, Rupiah/U.S. dollar exchange rate fluctuations and currency controls. The Indonesian government has recently introduced laws on revenue sharing and regional autonomy and a proposed oil and gas law. It is unclear at the present time what impact, if any, the recent and proposed legislation would have on the financial position, results of operations and prospects of these subsidiaries.

We face risks in connection with the integration of our Indonesian subsidiaries. As with any acquisition, success of the acquisition depends in part on our ability to integrate the operations of the subsidiaries of Repsol YPF, S.A. in Indonesia into our existing businesses. Although we do not expect to encounter difficulties with such integration, there can be no assurance that we will be able to integrate the businesses of the subsidiaries successfully or that we will not encounter delays or incur unanticipated costs in such integration. If we are not able successfully integrate the businesses of the subsidiaries into our operations, we may not fully realize the intended benefits of the acquisition.

Risks relating to the PRC petroleum industry

We operate in a regulated industry and our business may be affected by unfavorable regulatory changes. The PRC government exercises control over the PRC petroleum industry, including with respect to licensing, exploration, production, distribution, pricing, exports and allocation of various resources. As part of a PRC government reorganization, the State Economic and Trade Commission has become the primary coordinator for the petroleum industry and, together with other relevant governmental agencies, provides regulatory supervision over the petroleum industry.

In the past, we have benefited from various favorable PRC government policies, laws and regulations that were enacted to encourage the development of the offshore petroleum industry. In the future, the PRC government may change existing policies or adopt new policies, laws or regulations. Our business may be adversely affected by such unfavorable regulatory changes.

In addition, existing PRC regulations require that we apply for and obtain various PRC government licenses and other approvals, including in some cases amendments and extensions of existing licenses and approvals in order to conduct our exploration and development activities offshore China. If in the future we are unable to obtain any such necessary approvals, our reserves and production would be adversely affected.

Certain restrictions on foreign companies will be lifted as a result of China's entry into the World Trade Organization and may adversely affect our business. Effective December 11, 2001, the PRC became a member of the WTO. WTO membership status will result in China eventually lifting its restrictions which prohibit the direct sale of crude oil and processed oil by foreign companies in China within five years from the date of China's accession to the WTO. The sale of natural gas and liquefied petroleum gas is not specifically dealt with under China's market-access commitments relating to distribution services (as is the case with crude and processed oil). Accordingly, foreign participation in the sale of such products may be permitted within one year of accession in the form of minority-owned joint ventures and, within two years of accession, through wholly owned subsidiaries without any equity restrictions.

China's WTO membership status also impacts the participation of foreign companies in offshore oil-field services. China's WTO commitments in this regard provide for petroleum exploitation by foreign entities in cooperation with Chinese partners. Liberalization in this sector formally took effect from the date of China's accession. However, current PRC legislation regulating offshore oil-field services remains unchanged since 1982. This situation is expected to change to reflect China's apparently more liberal WTO commitments. Further

liberalization in this sector or amendments to PRC legislation to reflect China's agreed WTO commitments may result in our losing benefits from special policies and measures and lead to additional competition in the future.

Failure to comply with existing or future environmental laws and regulations could adversely affect us. Our business is subject to PRC environmental protection laws and regulations which:

- impose fees for the discharge of waste substances,
- require the payment of fines and damages for serious environmental pollution, and
- provide that the government may, at its discretion, close or suspend any facility which fails to comply with orders requiring it to cease or cure operations causing environmental damage.

We believe that all of our facilities and operations are in material compliance with the requirements of the relevant environmental protection laws and regulations. However, amendment of existing laws or regulations may impose additional or more stringent requirements. In addition, our compliance with such laws or regulations may require us to incur significant capital expenditures or other obligations or liabilities, which could create a substantial financial burden on us. For a further discussion of the environmental regulations in the PRC, see "Item 4--Information on the Company--Environmental Regulation."

Risks relating to the PRC

Our operations may be adversely affected by PRC economic and political conditions. Most of our business, assets and operations are located in the PRC and are owned and conducted by our wholly owned PRC subsidiary, CNOOC China Limited. The economy of the PRC differs from the economies of most developed countries in many respects, including:

- structure,
- government involvement,
- level of development,
- growth rate,
- capital reinvestment,
- allocation of resources,
- government control of foreign exchange, and
- balance of payments position.

The PRC economy has historically been a planned economy subject to long-term plans adopted by the PRC government, which set out production and development targets. The majority of productive assets in the PRC are still owned by the PRC government at various levels. In recent years the PRC government has implemented economic reform measures emphasizing decentralization, utilization of market forces in the development of the PRC economy and a high level of management autonomy. Such economic reform measures may be inconsistent or ineffectual, and we may not be able to capitalize on all such reforms. Further, these measures may be adjusted or modified, possibly resulting in such economic liberalization measures being inconsistent from industry to industry, or across different regions of the country.

Our operating results may be adversely affected by:

- changes in the PRC's political, economic and social conditions,
- changes in policies of the PRC government,
- changes in PRC laws and regulations or the interpretation of PRC laws and regulations,
- measures which may be introduced to control inflation or deflation,

- changes in the rate or method of taxation,
- imposition of additional restrictions on currency conversion and remittances abroad,
- reduction in tariff protection and other import restrictions,
- changes in the usage and costs of state controlled transportation services, and
- state policies affecting the industries to which we sell our products.

The PRC economy has experienced significant growth in the past 20 years, but the growth has been uneven both geographically and among various sectors of the economy. Economic growth has also been accompanied by periods of high inflation. The PRC government has implemented various policies from time to time to restrain the rate of such economic growth, control inflation and otherwise regulate economic expansion. In addition, the PRC government has attempted to control inflation by controlling the prices of basic commodities. Severe measures or other actions by the PRC government, such as placing additional controls on prices of petroleum and petroleum products, could restrict our business operations and adversely affect our financial position.

Government control of currency conversion and future movements in exchange rates may adversely affect our operations and financial condition. We receive most of our revenues in Renminbi. A portion of such revenues will need to be converted into other currencies to meet our foreign currency obligations. We have substantial requirements for foreign currency, including:

- debt service on foreign currency denominated debt,
- purchases of imported equipment, and
- payment of any dividends declared in respect of shares held by international investors.

CNOOC China Limited, our wholly owned principal operating subsidiary in the PRC, may undertake current account foreign exchange transactions without prior approval from the State Administration for Foreign Exchange. It has access to current account foreign exchange so long as it can produce commercial documents evidencing such transactions and provided that they are processed through certain banks in China. Foreign exchange transactions under the capital account, including principal payments with respect to foreign currency denominated obligations, will be subject to limitations of the State Administration for Foreign Exchange.

Since 1994, the conversion of Renminbi into Hong Kong and United States dollars has been based on rates set by the People's Bank of China, which are set daily based on the previous day's PRC interbank foreign exchange market rate and current exchange rates on the world financial markets. The PRC government has stated publicly that it intends to make Renminbi freely convertible in the future. However, we cannot predict when the PRC government will allow free conversion of Renminbi into foreign currencies. Renminbi devaluation and fluctuations in exchange rates may adversely affect the value, translated or converted into U.S. dollars or Hong Kong dollars, of our net assets, earnings and any declared dividends. Renminbi devaluation and exchange rate fluctuations may adversely affect our results of operations and financial condition and may result in foreign exchange losses because of our substantial U.S. dollar-and Japanese yen-denominated debts, expenses and other requirements. In addition, we may not be able to increase the Renminbi prices of our domestic sales to offset fully any depreciation of the Renminbi due to political, competitive or social pressures.

We do not hedge exchange rate fluctuations between the Renminbi and foreign currencies and currently have no plans to do so. For further information on our foreign exchange risks, foreign exchange rates and our hedging activities, see "Currencies and Exchange Rates" and "Item 5--Operating and Financial Review and Prospects--Market Risks."

Our operations are subject to the uncertainty of the PRC legal system. The PRC legal system is based on written statutes. Prior court decisions may be noted for reference but do not have binding precedential effect. Since 1979, the PRC government has been developing a comprehensive system of commercial laws, and considerable progress has been made in introducing laws and regulations dealing with economic matters such as foreign investment, corporate organization and governance, commerce, taxation and trade. However, these laws and regulations are relatively new and because of the limited volume of published cases and judicial interpretation and

their non-binding nature, enforcement and interpretation of these laws and regulations involve significant uncertainty. In addition, as the PRC legal system develops, changes in such laws and regulations, their interpretation or their enforcement may lead to additional restrictions on our business.

Risks relating to the ADSs and shares

Shares or ADSs eligible for public sale could adversely affect the price of our shares or ADSs. Sales, or the real or perceived possibility of sales, of a significant number of shares in the public market could adversely affect prevailing market prices for the ADSs and shares. As of April 30, 2002, CNOOC, through CNOOC (BVI) Limited, holds approximately 70.61% of our shares and the corporate investors own approximately 6.79% of our shares and Shell Eastern Petroleum (Pte) Limited owns approximately 3.16% of our shares. CNOOC (BVI) may sell the shares it owns, subject to the requirement of the Listing Rules of the Hong Kong Stock Exchange that, during the six-month period immediately following the expiration of the six-month lock-up period with respect to the global offering in February 2001, CNOOC shall not sell the shares such that it would cease to be our controlling shareholder or if such sale would create a disorderly market. During the second six-month period following the commencement of public trading of our shares, our corporate investors may dispose of up to 50% of our shares owned by them without CNOOC (BVI)'s prior written consent. Also during this second six-month period, Shell Eastern Petroleum (Pte) Limited may dispose of up to 50% of our shares owned by it without our and/or Merrill Lynch Far East Limited's prior consent. As of April

30, 2002, neither CNOOC (BVI) Limited nor Shell Eastern Petroleum (Pte) Limited has sold its shares in us. We cannot predict the effect, if any, that market sales of our shares, or the availability of our shares for future sale, will have on the market price of our shares or ADSs.

Pursuant to the registration rights agreement we entered into with our strategic investor, we have agreed to indemnify the strategic investor for certain liabilities that it may have under the Securities Act. Resale of the shares or ADSs in the United States by our strategic investor may only be done pursuant to an effective registration statement or an exemption from the registration requirements of the Securities Act. We and our strategic investor have entered into a registration rights agreement whereby we have agreed to register the securities of our strategic investor if it so requests. We have agreed to pay for the cost of any such registration and to indemnify our strategic investor for certain liabilities that it may have under the Securities Act which relate to the registration statement that would have to be filed and the annual report that would have to be delivered to purchasers, in the event of a resale by our strategic investor. There is a risk that we will be required to indemnify our strategic investor pursuant to the registration rights agreement.

We have agreed to enter into registration rights agreements with our corporate investors on the same terms as our registration rights agreement with our strategic investor. There is a risk that we will be required to indemnify our corporate investors pursuant to such registration rights agreements.

ITEM 4. INFORMATION ON THE COMPANY

A. HISTORY AND DEVELOPMENT

Our legal and commercial name is CNOOC Limited. Our head office is located at 65th Floor, Bank of China Tower, One Garden Road, Central, Hong Kong, and our telephone number is 852-2213-2500. We have appointed CT Corporation System, 111 Eighth Avenue, New York, New York 10011, as our agent for service of process.

The PRC government established CNOOC as the state-owned offshore petroleum company of China in 1982 under the Regulation of the People's Republic of China on Exploitation of Offshore Petroleum Resources in Cooperation with Foreign Enterprises, whereby CNOOC assumed overall responsibility for the administration and development of PRC offshore petroleum operations with foreign oil and gas companies. CNOOC is regulated and supervised by the State Economic and Trade Commission.

Prior to the reorganization, which became effective as of October 1, 1999, CNOOC and its various subsidiaries and affiliates performed commercial and administrative functions, including:

- exercising the exclusive right to cooperate with foreign partners in offshore petroleum exploration, development, production and sales activities, and taking up to a 51% participating interest in production sharing contracts,

- organizing international bidding for offshore petroleum exploitation,

- conducting independent exploration, development, production and sales activities in our independently operated oil and gas fields offshore China,
- awarding projects to and signing bilateral contracts with foreign partners for offshore petroleum exploitation,
- reviewing and confirming appraisal reports and overall development plans required under production sharing contracts, and
- obtaining from the PRC government all approvals, permits, licenses, consents and special policies necessary under production sharing contracts.

Reorganization

Under the reorganization in 1999, CNOOC transferred all of its then current operational and commercial interests in its offshore petroleum business to us. As a result, we and our subsidiaries are the only vehicle through which CNOOC engages in petroleum exploration, development, production and sales activities both within and outside China. CNOOC continues to perform administrative functions relating to our business.

The assets and liabilities primarily relating to the offshore petroleum business that were transferred to us in the reorganization include:

- 37 production sharing contracts and one geophysical survey agreement,
- eight independent development and production projects,
- a 30% interest in Shanghai Petroleum and Natural Gas Company Limited,
- the land use rights to terminal facilities in Nanhai, Weizhou and the western part of Bohai Bay, and
- loans from, and swap agreements with, various PRC and foreign banks.

In addition, CNOOC transferred approximately 917 employees to us to facilitate the transfer of the oil and natural gas businesses previously operated by CNOOC.

CNOOC has retained its commercial interests in operations and projects not related to oil and gas exploration and production, including:

- a petrochemical project in Huizhou, Guangdong Province,
- a fertilizer plant in Hainan Province, and
- a liquefied natural gas project in Guangdong Province.

CNOOC also retained all of its administrative functions, which it performed prior to the reorganization, including:

- organizing international bidding for offshore petroleum exploitation,

- awarding projects to and signing bilateral contracts with foreign partners for offshore petroleum exploitation,

- approving any extension of the period for the completion of the appraisal work on petroleum discovery under the production sharing contracts, and

- submitting the overall development plans, reports of the oil and gas fields and the environmental impact statements related to the production sharing contracts to the PRC governmental authorities.

Undertakings

CNOOC has undertaken to us that:

- we will enjoy the exclusive right to exercise all of CNOOC's commercial and operational rights under the PRC laws and regulations relating to the exploration, development, production and sales of the PRC offshore oil and natural gas,

- it will transfer to us all of its rights and obligations under any new production sharing contracts and geophysical exploration operations, except those relating to its administrative functions,

- neither it nor any of its affiliates will engage or be interested, directly or indirectly, in oil and natural gas exploration, development, production and sales in or outside the PRC,

- we will be able to participate jointly with CNOOC in negotiating new production sharing contracts and to set out our views to CNOOC on the proposed terms of new production sharing contracts,

- we will have unlimited and unrestricted access to all data, records, samples and other original data owned by CNOOC relating to oil and natural gas resources,

- we will have an option, for which no consideration will be payable by us to CNOOC, to make any investment in liquefied natural gas projects that CNOOC has invested or proposes to invest, and CNOOC will at its own expense help us to procure all necessary government approvals needed for our participation in these projects, and

- we will have an option, for which no consideration will be payable by us to CNOOC, to participate in other businesses related to natural gas in which CNOOC has invested or proposes to invest, and CNOOC will at its own expense procure all necessary government approvals needed for our participation in such business.

If we do not exercise the option to participate in a liquefied natural gas project, such decision will be subject to the review of our independent non-executive directors. We will make an announcement of our decision and the views of our independent non-executive directors, and include in our annual report the decision and the views of our independent non-executive directors. The terms of this option require us, if we exercise the option, to reimburse CNOOC for any contribution CNOOC has made with respect to the facility, together with interest thereon calculated at the prevailing market interest rate.

The undertakings from CNOOC will cease to have any effect:

- if we become a wholly owned subsidiary of CNOOC,
- if our securities cease to be listed on any stock exchange or automated trading system, or
- 12 months after CNOOC or any other PRC government controlled entity ceases to be our controlling shareholder.

Corporate Structure

As of April 30, 2002, CNOOC indirectly owns or controls an aggregate of 70.61% of our shares. Accordingly, it continues to be able to exercise all the rights of a controlling shareholder, including electing our directors and voting to amend our articles of association. Although CNOOC has retained a controlling interest in our company, the management of our business will be our directors' responsibility.

The chart on the following page sets forth our controlling entities and our principal subsidiaries as of April 30, 2002.

CNOOC Limited Corporate Structure

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                                                  |  China National Offshore Oil   |
                                                  |          Corporation           |
                                                  |             (PRC)              |
                                                   ----------------------------------
                                                                  |
                                                                  |
                                                                  | 100%
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                                                   |       Overseas Oil & Gas       |
                                                   |        Corporation Ltd.        |
                                                   |           (Bermuda)            |
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                                                                  |
                                                                  |
                                                                  | 100%
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                                                  ----------------------------------
                                                  |       CNOOC (BVI)Limited       |
                                                  |    (British Virgin Islands)    |
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-----------------------------                     ----------------------------------
|  Public Shareholders and  |                                     |
|    Corporate Investors    |\                                    |
|                           | \ 29.39%                            | 70.61%
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                                  \   |          CNOOC Limited          |
                                    \ |           (Hong Kong)           |
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            ------------------------------------------------------------------------------------------
            |                              |                              |
            | 100%                         | 100%                         | 100%
            |                              |                              |
----------------------------   -------------------------   -----------------------------   ------
|         CNOOC            |   |      CNOOC China      |   |     China Offshore Oil      |   |    C
|     International        |   |      Limited(1)       |   |        (Singapore)          |   |    (
|       Limited)1)         |   |         (PRC)         |   | International Pte Ltd.(3)  |   |   (B
| (British Virgin Islands) |   |                       |   |        (Singapore)          |   |
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(1) The owner of our interests in our overseas petroleum exploration and production business and operations.

(2) The owner of substantially all of our petroleum exploration and production businesses, operations and properties in the PRC.

(3) The business vehicle through which we engage in sales and marketing activities in the international market.

B. BUSINESS OVERVIEW

Overview

We are an oil and gas company engaged primarily in the exploration, development and production of crude oil and natural gas offshore China. We are the dominant producer of crude oil and natural gas offshore China and the only company permitted to conduct exploration and production activities with international oil and gas companies offshore China. As of December 31, 2001, we had estimated net proved reserves of 1,787.1 million BOE, comprised of 1,245.9 million barrels of crude oil and condensate and 3,247.6 billion cubic feet of natural gas. For the year 2001, our net production averaged 228,874 barrels per day of crude oil, condensate and natural gas liquids and 195.0 million cubic feet per day of natural gas, which together totaled 261,379 BOE per day and represented a 9.2% increase over the annual average daily production in year 2000.

We increased our net proved reserves from 668 million BOE as of December 31, 1995 to 1,787.1 million BOE as of December 31, 2001, which represents a compound annual growth rate of 17.8%. Based on net proved reserves, we are one of the largest independent oil and gas exploration and production companies in the world. In the petroleum industry, an "independent" company owns oil and gas reserves independently of other downstream assets, such as refining and marketing assets, as opposed to an integrated company that owns downstream assets in addition to oil and gas reserves. As of December 31, 2001, approximately 60% of our net proved reserves were classified as net proved undeveloped. We plan to spend approximately US$2.1 billion developing our reserves offshore China and approximately US$400 million for independent exploration offshore China from 2002 through 2003.

We conduct our exploration, development and production activities through both independent operations and production sharing contracts with foreign partners. We have added to our reserves in recent years primarily through our independent operations. As of December 31, 2001, independent properties accounted for approximately 59.5% of our total net proved reserves. We are the operator of all of our independent producing properties. For the year ended December 31, 2001, production from our independent properties accounted for 57.9% of total net production. Because independent properties account for approximately 59% of our current net proved undeveloped reserves, we expect our production from independent properties to continue to increase.

Through our parent company, CNOOC, we have the exclusive right to enter into production sharing contracts with international oil and gas companies to conduct exploration and production activities offshore China. See "--Production Sharing Contracts." As of December 31, 2001, we were a party to a total of 30 production sharing contracts and one joint study agreement. In 2001, we entered into three of these production sharing contracts and into one joint study agreement with our foreign partners. The following table sets forth details of these transactions.

Basin	Block	Nature of Agreement	Foreign Partner	Interest(%)	Date of S
Pearl River Mouth	27/10	PSC	Santa Fe	100	May 10
Pearl River Mouth	39/05	PSC	Husky	100	July 26
Bohai Bay	BZ26-2/28-1	Joint Study	Shell	100	August 31
Bohai Bay	11/26	PSC	Shell	100	December
Total					

We currently are the operator or joint operator of most of the properties developed under our production sharing contracts. In the early years of our existence, we conducted most of our activities through production sharing contracts. Production sharing contracts have enabled us to develop our technical and management expertise and provided us with the cash flows necessary to increase the scope of our independent exploration and production activities.

Natural gas is becoming an increasingly important part of our business strategy as we exploit our natural gas reserves to meet rapidly growing domestic demand. We are continuing to explore for natural gas and develop natural gas properties. In view of the domestic natural gas supply shortfall forecasted by the Chinese government, we may invest in liquefied natural gas projects. We may also make strategic investments in other assets to facilitate the development of markets for natural gas production.

CNOOC, our parent company, was formed in 1982 when the Regulation of the People's Republic of China on Exploitation of Offshore Petroleum Resources in Cooperation with Foreign Enterprises gave CNOOC the exclusive right to enter into production sharing contracts with foreign partners to conduct exploration and production activities offshore China. As a result of CNOOC's October 1999 reorganization, we became the only entity through which CNOOC engages in the upstream petroleum business. CNOOC continues to perform administrative functions relating to our upstream petroleum business. For further details regarding this reorganization, see "Item 7--Major Shareholders and Related Party Transactions."

Competitive Strengths

We believe that our historical success and future prospects are directly related to a combination of strengths, including the following:

- large proved reserve base with significant exploitation opportunities;
- sizable operating area with demonstrated exploration potential;
- successful independent exploration and development record;
- competitive cost structure;
- reduced risks and access to capital and technology through production sharing contracts;
- strategic position in China's growing natural gas markets; and
- experienced management team.

Large proved reserve base with significant exploitation opportunities. Based on net proved reserves as of December 31, 2001 and average net daily production for the year ended December 31, 2001, we had a reserve-to-production ratio of approximately 18.7 years. As of December 31, 2001, approximately 60% of our net proved reserves were classified as net proved undeveloped. We expect our production to grow significantly as these undeveloped properties begin producing.

Sizable operating area with demonstrated exploration potential. The offshore China exploration area is approximately 1.3 million square kilometers in size, about twice as large as the U.S. Gulf of Mexico exploration area. As of December 31, 2001, a total of 738 exploration wells had been drilled offshore China. Only limited exploration has been conducted in the natural gas prone regions of the Western South China Sea and the East China Sea. Since CNOOC's inception in 1982, a total of 615 exploration wells have been drilled offshore China including 394 wildcat wells with a success rate of approximately 36%. 17 discoveries have been made offshore China between the beginning of 1999 and December 31, 2001, including major discoveries made by Phillips, Kerr-McGee, Devon Energy and the CACT operating group, as well as four discoveries made by us.

Successful independent exploration and development record. From the formation of CNOOC in 1982 to December 31, 2001, we achieved a success rate of approximately 51% on our 146 independent wildcat wells while our foreign partners achieved a success rate of approximately 28% on their 248 wildcat wells. Between late 1995 and the end of 2001, we completed six of our major independent development projects on time and under budget. Our average finding and development cost for our independent operations for the three years ended December 31, 2001 was US$4.92 per BOE, or US$4.15 per BOE as adjusted for the estimated future costs of developing proved undeveloped reserves.

Competitive cost structure. For the year ended December 31, 2001, our total lifting costs were US$4.16 per BOE. Lifting costs consist of operating expenses and production taxes. Total lifting costs for independent operations

were US$3.88 per BOE during the same period. We have kept our lifting costs low through various measures including more efficient use of offshore infrastructure, the linking of employee bonuses to cost reduction and the adoption of new technology in our operations. We believe that our cost structure allows us to compete effectively even in a low crude oil price environment.

Reduced risks and access to capital and technology through production sharing contracts. Production sharing contracts help to minimize finding costs, exploration risks and capital requirements because foreign partners are responsible for all costs associated with exploration. Under a production sharing contract, our foreign partners can recover their exploration costs only if a commercially viable discovery is made. Through production sharing contracts, we have ready access to modern technology and are able to gain expertise, which we are then able to utilize in our independent exploration and production activities. We also enter into production sharing contracts with respect to our independent discoveries in instances where we believe we need the expertise and capital of a foreign partner to reduce our risk and develop the discovery successfully.

Strategic position in China's growing natural gas markets. The proximity of our natural gas reserves to the major demand areas in the coastal regions of China provides us with a competitive advantage over other natural gas suppliers in China, whose natural gas reserves are located primarily in northwest and southwest China. We have natural gas fields near many of China's rapidly growing coastal areas, including Hong Kong, Shanghai and Tianjin. In addition, CNOOC has granted us an option to acquire its interest in a liquefied natural gas import facility located in Guangdong Province. Construction of the facility is expected to begin in 2002. The terms of this option require us, if we exercise the option, to reimburse CNOOC for any contribution CNOOC has made with respect to the facility, together with interest thereon calculated at the prevailing market interest rate. CNOOC has also granted us an option to make any other investment in liquefied natural gas projects or other natural gas related businesses in which CNOOC has invested or proposes to invest. If we exercise our option to participate in the Guangdong Province project, we believe our participation in this project will position us well for participation in future liquefied natural gas projects. For further information, see "--Natural Gas Business."

Experienced management team. Our senior management team has extensive experience in the oil and gas industry, and most of our executives have been with us or CNOOC since CNOOC's inception in 1982. We have evolved from a company heavily reliant on production sharing contracts with foreign partners to a company with a balance of independent operations and production sharing contract operations. Our management team and staff have had the opportunity to work closely with foreign partners both within and outside China. We have implemented international management practices including incentive compensation schemes for our employees. In addition, we have adopted a share option scheme for our senior management. See "Item 6--Directors, Senior Management and Employees--Share Ownership."

Business Strategy

We intend to continue to expand our oil and gas exploration and production activities and, where appropriate, to make strategic investments in related natural gas businesses in order to help develop the markets for natural gas production. While our expansion strategy will continue to focus primarily on offshore China, we may also consider selective acquisition opportunities overseas. The principal components of our strategy are as follows:

- increase production primarily through the development of our net proved undeveloped reserves;
- add to our reserves through independent exploration and production sharing contracts;
- capitalize on the growing demand for natural gas in China;
- maintain operational efficiency and low production costs; and
- maintain conservative financial practices to maximize financial flexibility.

Increase production primarily through the development of our net proved undeveloped reserves. As of December 31, 2001, approximately 60% of proved reserves were classified as proved undeveloped, which gives us the opportunity to achieve substantial production growth even without further discovery of new reserves, assuming that we will be able to develop these reserves more quickly than we deplete our currently producing reserves. We are currently undertaking a number of large development projects located primarily in the Bohai Bay and the

Western South China Sea, which will substantially increase production as these projects begin producing. We plan to spend approximately US$2.1 billion through the year 2003 to develop our net proved undeveloped reserves offshore China. Approximately US$970 million will be spent on independent projects and approximately US$1.2 billion will be spent on projects under production sharing contracts.

Add to our reserves through independent exploration and production sharing contracts. We plan to concentrate our independent exploration efforts in existing operating areas with a particular emphasis on natural gas. We plan to spend approximately US$400 million through 2003 on independent exploration activities. We plan to augment independent exploration efforts and reduce capital commitments and exploration risks by continuing to enter into production sharing contracts with foreign partners. We currently have identified 40 prospects ready for drilling. In 2002, we plan to drill approximately 42 exploration wells, acquire approximately 18,200 kilometers of 2D seismic data and approximately 1,900 square kilometers of 3D seismic data independently. Our foreign partners, under existing production sharing contracts, plan to drill approximately 21 to 41 exploration wells, acquire approximately 1,800 kilometers of 2D seismic data and acquire approximately 600 to 2,650 square kilometers of 3D seismic data in 2002.

Capitalize on the growing demand for natural gas in China. The Chinese government is forecasting significant growth in domestic natural gas demand and has made efforts to promote the use of natural gas as a clean and more efficient fuel. We plan to capitalize on this growth potential through the following initiatives:

- continue to develop natural gas fields and focus independent exploration efforts on natural gas;
- evaluate whether to exercise the option to invest in the planned Guangdong liquefied natural gas project;
- evaluate investment opportunities in related natural gas businesses that will help develop markets for our natural gas production; and
- selectively pursue interests in producing natural gas properties outside China, where appropriate, to secure upstream natural gas supply for any liquefied natural gas projects in which we may participate.

To the extent we invest in businesses and geographic areas where we have limited experience and expertise, we plan to structure our investments as alliances or partnerships with parties possessing the relevant experience and expertise.

Maintain operational efficiency and low production costs. We currently use advanced technologies including:

- drilling technologies including rapid drilling, drilling in high-temperature and high-pressure areas, long range extension wells, multilateral wells, advanced formation testing and advanced seismic profiling;
- production technologies including hydrocyclone and extended reach pipelines, multi-phase transmission, monolayer pipeline and subsea production technologies; and
- offshore engineering technologies including minimal structure techniques and suction foundation technology.

The application of these technologies to operations in offshore China has enabled us to expand the scope of our exploration activities, increase exploration and development efficiencies and reduce costs. We plan to continue to invest in technology.

Maintain conservative financial practices to maximize financial flexibility. We will continue to emphasize conservative financial management practices. Currently, we have a strong financial profile with a moderate leverage ratio. We intend to maintain our financial strength through management of key measures such as capital expenditures, cash flows and fixed charge coverage. We intend to aggressively manage our accounts receivable and inventory positions to enhance liquidity and improve profitability. We will continue to monitor our foreign currency denominated debt and to minimize our exposure to foreign exchange rate fluctuations.

Exploration and Production

Summary

We currently conduct exploration, development and production activities primarily in four areas offshore China:

- the Bohai Bay;
- the Western South China Sea;
- the Eastern South China Sea; and
- the East China Sea.

In addition, we have a 39.5% interest in a production sharing contract in Indonesia and expect to complete an acquisition for interests in four additional production sharing contracts and a technical assistance contract onshore and offshore Indonesia in September 2002. See "--Overseas Activity" and "Item 5--Operating and Financial Review and Prospects--The Repsol Acquisition."

As of December 31, 2001, we had estimated net proved reserves of 1,787.1 million BOE, comprised of 1,245.9 million barrels of crude oil and condensate and 3,247.6 billion cubic feet of natural gas. As of December 31, 2001, we had interests in 27 producing properties and 18 properties under development and appraisal. In 2001, two properties commenced production. We are the operator or joint operator of 22 oil and gas properties under production. For the year 2001, net production averaged 228,874 barrels per day of crude oil, condensate and natural gas liquids and 195.0 million cubic feet per day of natural gas, which together totaled 261,379 BOE per day.

We conduct our exploration, development and production activities through independent exploration and production activities and production sharing contracts and geophysical survey agreements with foreign partners. A production sharing contract contains provisions regarding the exploration, development, production and operation of an oil and gas field and the formula through which foreign partners may recover exploration, development and production costs and share in the production after the successful development of petroleum reserves. See "--Production Sharing Contracts" for a detailed discussion of these arrangements. As of December 31, 2001, we were a party to 30 production sharing contracts.

We can also conduct exploration efforts through geophysical survey agreements with foreign companies. Geophysical survey agreements are designed for international oil and gas companies to conduct certain geophysical studies before they decide whether to enter into production sharing contract negotiations with CNOOC. If a foreign partner decides to enter into a production sharing contract with CNOOC, the costs and expenses that the foreign partner incurs in conducting geophysical exploration may be recovered in the production period by the foreign partner, subject to our confirmation. See "--Geophysical Survey Agreements" for a detailed discussion of these arrangements. As of December 31, 2001, we were no longer a party to any geophysical survey agreements. We decide to conduct independent exploration, development and production primarily on the basis of the commercial viability of a discovery and the resources and technical expertise required to explore and develop a particular property.

The offshore China exploration area is approximately 1.3 million square kilometers in size. We currently have the exclusive right to operate independently or in conjunction with international oil and gas companies in approximately 601,700 square kilometers of the total offshore China exploration area. We currently have licenses for 81 exploration blocks covering approximately 387,810 square kilometers. Our production sharing contract partners currently have licenses for 27 exploration blocks covering approximately 87,310 square kilometers. We have access to approximately 789,870 kilometers of 2D seismic data and approximately 27,710 square kilometers of 3D seismic data. From the beginning of CNOOC's operations in 1982 to December 31, 2001, a total of 615 exploration wells have been drilled offshore China, including 394 wildcat wells with a success rate of approximately 36%. During this period we achieved a success rate of approximately 51% on our 146 independent wildcat wells while our foreign partners achieved a success rate of approximately 28% on their 248 wildcat wells.

Oil and Natural Gas Reserves

We have a large base of net proved undeveloped reserves as a result of our exploration successes. As of December 31, 2001, approximately 60% of net proved reserves were classified as net proved undeveloped. We are currently undertaking a number of large development projects located primarily in the Bohai Bay and the Western South China Sea which we expect will substantially increase our production as they begin producing.

In this annual report, we report net proved reserves. Our net proved reserves consist of our percentage interest in total reserves, comprised of our 100% interest in our independent oil and gas properties (excluding the Pinghu field in the East China Sea), our participating interest in the properties covered under our production sharing contracts and 30% of the proved reserves of our associated company that operates the Pinghu field, less (a) an adjustment for our share of royalties payable to the PRC government and our participating interest in share oil payable to the PRC government under our production sharing contracts, and less (b) an adjustment for production allocable to foreign partners under our production sharing contracts as reimbursement for exploration expenses attributable to our participating interest. Net proved reserves do not include an adjustment for production taxes payable by us, which are included in our operating expenses. Net production is calculated in the same way as net proved reserves.

We explore for, and develop, our reserves under exploration licenses and production licenses, each granted by the PRC government. Exploration licenses generally are granted on a block by block basis, while production licenses generally are granted on a field by field basis. We have production licenses that cover all of our proved reserves.

At our request, Ryder Scott Company, independent petroleum engineering consultants, carried out an independent evaluation of our selected properties as at December 31, 2001. The results obtained by Ryder Scott Company with respect to net proved reserves as at December 31, 2001 do not show significant differences from those reported by us.

The following tables set forth net proved crude oil reserves, net proved natural gas reserves and total net proved reserves, as of December 31, 1999, 2000 and 2001, by independent and production sharing contract operations in each of our operating areas.

Total Net Proved Crude Oil Reserves (mmbbls)

	As of December 31,		As of Dec
	1999	2000	Developed
Independent			
Bohai Bay	687.9	675.7	339.8
Western South China Sea	185.1	76.4	56.1
Eastern South China Sea	--	--	--
East China Sea	8.2	4.5	--
Overseas	--	--	--
Total	881.2	756.6	395.8
Production Sharing Contracts			
Bohai Bay	227.6	248.2	98.2
Western South China Sea	5.3	64.7	3.6
Eastern South China Sea	117.4	136.8	74.6
East China Sea	--	--	1.9
Overseas	10.1	9.5	8.4
Total	360.4	459.2	186.7
Total			
Bohai Bay	915.5	923.9	437.9
Western South China Sea	190.4	141.1	59.7
Eastern South China Sea	117.4	136.8	74.6
East China Sea	8.2	4.5	1.9
Overseas	10.1	9.5	8.4
Total	1,241.6	1,215.8	582.5

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Total Net Proved Natural Gas Reserves (bcf)

	As of December 31,		As of D
	1999	2000	Developed
Independent			
Bohai Bay	605.7	591.4	196.1
Western South China Sea	1,773.5	1,773.6	--
Eastern South China Sea	--	--	--
East China Sea	67.2	65.3	--
Overseas	--	--	--
Total	2,446.4	2430.3	196.1
Production Sharing Contracts			
Bohai Bay	--	--	--

Western South China Sea	874.3	819.4	538.0
Eastern South China Sea	--	--	--
East China Sea	--	--	31.0
Overseas	--	--	--
Total	874.3	819.4	569.1
Total			
Bohai Bay	605.7	591.4	196.1
Western South China Sea	2,647.8	2,593.0	538.0
Eastern South China Sea	--	--	--
East China Sea	67.2	65.3	31.0
Overseas	--	--	--
Total	3,320.7	3,249.7	765.2

Total Net Proved Reserves
(million BOE)

	As of December 31,		As of De
	1999	2000	Developed
Independent			
Bohai Bay	788.9	774.2	372.4
Western South China Sea	480.7	372.0	56.1
Eastern South China Sea	--	--	--
East China Sea	19.4	15.4	--
Overseas	--	--	--
Total	1,289.0	1,161.6	428.5
Production Sharing Contracts			
Bohai Bay	227.6	248.2	98.2
Western South China Sea	151.0	201.3	93.2
Eastern South China Sea	117.4	136.8	74.6
East China Sea	--	--	7.1
Overseas	10.1	9.5	8.4
Total	506.1	595.8	281.5
Total			
Bohai Bay	1,016.5	1,022.4	470.6
Western South China Sea	631.7	573.3	149.4
Eastern South China Sea	117.4	136.8	74.6
East China Sea	19.4	15.4	7.1
Overseas	10.1	9.5	8.4
Total	1,795.1	1,757.4	710.0

Oil and Natural Gas Production

The following tables show average daily net oil production, net natural gas production, and average net total production for the three years ended December 31, 1999, 2000 and 2001. Oil production comprises crude oil, condensate and natural gas liquids.

Average Daily Net Crude Oil Production
(bbls per day)

	Year ended December 31,	
	1999	2000
Independent		
Bohai Bay	42,297	63,797
Western South China Sea	34,522	45,828
Eastern South China Sea	--	--
East China Sea	3,249	3,557
Overseas	--	--
Total	80,068	113,182
Production Sharing Contracts		
Bohai Bay	2,907	--
Western South China Sea	641	606
Eastern South China Sea	88,052	90,097
East China Sea	--	--
Overseas	3,077	2,462
Total	94,677	93,165
Total		
Bohai Bay	45,204	63,797
Western South China Sea	35,163	46,434
Eastern South China Sea	88,052	90,097
East China Sea	3,249	3,557
Overseas	3,077	2,462
Total	174,745	206,347

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Average Daily Net Natural Gas Production
(mmcf per day)

	Year ended December 31,	
	1999	2000